

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1

AUDIT REPORT

JUNE 30, 2009

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board

Chamberlain School District No. 7-1

Brule County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chamberlain School District No. 7-1, Brule County, South Dakota, as of and for the fiscal year ended June 30, 2009, which collectively comprise Chamberlain School District's basic financial statements, and have issued my report thereon dated November 30, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Chamberlain School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These are numbered 2009-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant described above is a material weakness. See finding number 2009-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chamberlain School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The School District's response to the findings identified in my audit is described in the accompanying schedule of current audit findings and questioned costs. I did not audit Chamberlain School District's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the South Dakota Legislature, the governing board and management of Chamberlain School District No. 7-1 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133, this report is a matter of public record and its distribution is not limited.



November 30, 2009

Gary L. Larson, CPA

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

School Board
Chamberlain School District No. 7-1
Brule County, South Dakota

Compliance:

I have audited the compliance of Chamberlain School District No. 7-1, Brule County, South Dakota with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. Chamberlain School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Chamberlain School District's management. My responsibility is to express an opinion on Chamberlain School District's compliance based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Controller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chamberlain School District's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Chamberlain School District's compliance with those requirements.

In my opinion, Chamberlain School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of Chamberlain School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Chamberlain School District's internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the school District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the School District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and material weaknesses.

A control deficiency in the School District's internal control over compliances exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirements of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2009-02 to be a material weakness.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control. Of the significant deficiencies in the internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs, I consider item number 2009-02 to be a material weakness.

The Chamberlain School District's response to the findings identified in my audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, the governing board and management of Chamberlain School District No. 7-1 and is not intended to be and should not be used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Day L. Larson". The signature is written in a cursive, flowing style.

November 30, 2009

Gary L. Larson, CPA

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INDEPENDENT AUDITOR'S REPORT

School Board
Chamberlain School District No. 7-1
Brule County, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chamberlain School District No. 7-1, Brule County, South Dakota, as of June 30, 2009, and for the fiscal year then ended, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Chamberlain School District's management. My responsibility is to express opinions on these financial statements based on my audit.

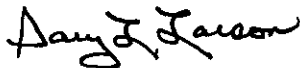
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Chamberlain School District No. 7-1 as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated November 30, 2009 on my consideration of Chamberlain School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Chamberlain School District No. 7-1 has not presented the Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules for the General and Special revenue Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Chamberlain School District No. 7-1 basic financial statements taken as a whole. The schedule of expenditures of federal awards is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.



November 30, 2009

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$2,743,853	\$29,769	\$2,773,622
Investments	518,195	0	518,195
Taxes receivable	1,673,043	0	1,673,043
Other receivables	314,045	0	314,045
Inventories	45,705	4,053	49,758
Other Assets:			
Deferred charges	25,903	0	25,903
Capital Assets:			
Land	217,000	0	217,000
Other capital assets, net of depreciation	10,493,195	29,970	10,523,165
TOTAL ASSETS	\$16,030,939	\$63,792	\$16,094,731
 LIABILITIES:			
Accounts payable	\$7,129	\$0	\$7,129
Other current liabilities	805,972	0	805,972
Deferred revenue	1,651,554	5,924	1,657,478
Noncurrent Liabilities:			
Due within one year	677,074	0	677,074
Due in more than one year	1,992,328	0	1,992,328
TOTAL LIABILITIES	5,134,057	5,924	5,139,981
 NET ASSETS:			
Invested in capital assets, net of related debt	8,040,793	29,970	8,070,763
Restricted For:			0
Capital outlay	646,321	0	646,321
Pension	132,969	0	132,969
Debt service	387,088	0	387,088
Food service	0	27,898	27,898
Unrestricted	1,689,711	0	1,689,711
TOTAL NET ASSETS	10,896,882	57,868	10,954,750
 TOTAL LIABILITIES AND NET ASSETS	\$16,030,939	\$63,792	\$16,094,731

The accompanying notes to financial statements
are an integral part of this statement.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$5,677,280	\$80,000	\$2,596,499
Support services	2,942,838	7,933	30,524
Community services	136,477	0	100,000
Interest on long-term debt*	115,166	0	0
Cocurricular activities	278,016	35,689	0
Total Governmental Activities	9,149,777	123,622	2,727,023
Business-type Activities:			
Food service	386,564	195,083	200,434
TOTAL	\$9,536,341	\$318,705	\$2,927,457

* The district does not have interest expense related to the functions presented above. This amount represents indirect interest expense on general long-term debt.

GENERAL REVENUES:

Property taxes
Gross receipts taxes
State aid
Federal grants
Unrestricted investment earnings
Other general revenues

TRANSFERS

Total general revenues and transfers

Change in net assets

Net Assets-beginning,

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$3,000,781)	\$0	(\$3,000,781)
(2,904,381)	0	(2,904,381)
(36,477)	0	(36,477)
(115,166)	0	(115,166)
(242,327)	0	(242,327)
(6,299,132)	0	(6,299,132)
0	8,953	8,953
(6,299,132)	8,953	(6,290,179)
3,350,765	0	3,350,765
205,823	0	205,823
2,708,782	0	2,708,782
552,176	0	552,176
45,344	361	45,705
205,957	0	205,957
361	(361)	0
7,069,208	0	7,069,208
770,076	8,953	779,029
10,126,806	48,915	10,175,721
\$10,896,882	\$57,868	\$10,954,750

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS:			
Cash and cash equivalents	\$1,123,628	\$422,989	\$28,096
Investments	300,000	218,195	0
Taxes receivable-current	695,363	520,964	243,128
Taxes receivable-delinquent	11,483	5,137	2,533
Accounts receivable	80,000	0	0
Due from other governments	234,045	0	0
Inventory of supplies	45,705	0	0
TOTAL ASSETS	<u><u>\$2,490,224</u></u>	<u><u>\$1,167,285</u></u>	<u><u>\$273,757</u></u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$7,129	\$0	\$0
Contracts payable	485,517	0	119,489
Payroll deductions and withholding and employer matching payable	134,938	0	37,604
Deferred revenue	706,846	526,101	245,661
TOTAL LIABILITIES	<u>1,334,430</u>	<u>526,101</u>	<u>402,754</u>
 Fund Balances:			
Unreserved:			
Designated for FY '10 budget	50,000	0	0
Undesignated (deficit)	1,105,794	641,184	(128,997)
TOTAL FUND BALANCES	<u>1,155,794</u>	<u>641,184</u>	<u>(128,997)</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$2,490,224</u></u>	<u><u>\$1,167,285</u></u>	<u><u>\$273,757</u></u>

The accompanying notes to financial statements are an integral part of this statement

Pension Fund	Impact Aid Fund	Bond Redemption Fund	Total Governmental Funds
\$132,479	\$629,577	\$385,242	\$2,722,011
0	0	0	518,195
51,281	0	140,818	1,651,554
490	0	1,846	21,489
0	0	0	80,000
0	0	0	234,045
0	0	0	45,705
<u>\$184,250</u>	<u>\$629,577</u>	<u>\$527,906</u>	<u>\$5,272,999</u>

\$0	\$0	\$0	\$7,129
0	0	0	605,006
0	0	0	210,146
51,771	0	142,664	2,199,144
<u>51,771</u>	<u>0</u>	<u>142,664</u>	<u>2,457,720</u>

0	0	0	50,000
132,479	629,577	385,242	2,765,279
<u>132,479</u>	<u>629,577</u>	<u>385,242</u>	<u>2,815,279</u>
<u>\$184,250</u>	<u>\$629,577</u>	<u>\$527,906</u>	<u>\$5,272,999</u>

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total Fund Balances-Government Funds	\$2,815,279
Amounts reported for governmental activities in the statement of net assets are different because:	
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	21,489
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,710,195
Long-term liabilities, including general obligation bonds and capital outlay certificates, are not due and payable in the current period and therefore are not reported in the funds.	(2,669,402)
Liabilities such as accrued interest payable on long-term debt are not reported in the funds statement but are in the statement of net assets.	(28,424)
Cost of bond issues are recorded as expenditures in the funds, but are reported as assets in the Statement of Net Assets.	25,903
Internal service funds are used by management to change the cost of certain activities, such as unemployment insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>21,842</u>
Net Assets-Governmental Funds	<u><u>\$10,896,882</u></u>

The accompanying notes to financial statements are an integral part of this statement

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$1,418,426	\$1,013,399	\$472,928
Prior year's ad valorem taxes	33,670	13,371	6,240
Gross receipts taxes	205,823	0	0
Penalties and interest	4,646	2,706	1,270
Earnings on deposits:			
Interest earned	8,298	27,665	722
Cocurricular activities:			
Admissions	35,689	0	0
Other revenues from local sources:			
Rentals	7,933	0	0
Sale of student built house	80,000	0	0
Other	115,372	0	10,040
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	80,545	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	2,708,782	0	0
Restricted grants-in-aid	29,156	30,524	827,595
Revenues from Federal Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid received directly from federal government	0	0	43,610
Restricted grants-in-aid received from federal government through state	1,570,233	0	225,905
Total Revenue	<u>\$6,298,573</u>	<u>\$1,087,665</u>	<u>\$1,588,310</u>

The accompanying notes to financial statements are an
integral part of this statement.

Pension Fund	Impact Aid Fund	Bond Redemption Fund	Total Governmental Funds
\$101,317	\$0	\$290,677	\$3,296,747
1,324	0	4,286	58,891
0	0	0	205,823
262	0	886	9,770
902	4,690	3,067	45,344
0	0	0	35,689
0	0	0	7,933
0	0	0	80,000
0	0	0	125,412
0	0	0	80,545
0	0	0	2,708,782
0	0	0	887,275
0	552,176	0	595,786
0	0	0	1,796,138
\$103,805	\$556,866	\$298,916	\$9,934,135

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$1,450,716	\$63,104	\$0
High school	1,570,298	50,781	0
Other	21,232	0	0
Special Programs:			
Programs for special education	0	0	1,333,850
Educationally deprived	849,487	0	0
Support Services:			
Pupils-			
Attendance and social work	85,704	0	0
Guidance	108,433	0	0
Health	3,235	0	0
Psychological	0	0	24,433
Speech pathology	0	0	183,725
Student therapy	0	0	32,171
Instructional staff-			
Improvement of instruction	293,165	0	0
Educational media	81,404	25,773	0
General administration-			
Board of education	36,794	0	0
Executive administration	148,046	0	0
School administration-			
Office of principal	273,280	0	0
Business-			
Fiscal services	125,041	0	0
Operation and maintenance			
of plant	772,045	92,755	0
Pupil transportation	266,250	50,000	0
Food service	0	10,848	0
Central-			
Planning	60,189	0	0

The accompanying notes to financial statements are an
integral part of this statement.

Pension Fund	Impact Aid Fund	Bond Redemption Fund	Total Governmental Funds
\$27,500	\$0	\$0	\$1,541,320
46,007	0	0	1,667,086
0	0	0	21,232
0	0	0	1,333,850
0	0	0	849,487
0	0	0	85,704
0	0	0	108,433
0	0	0	3,235
0	0	0	24,433
0	0	0	183,725
0	0	0	32,171
0	0	0	293,165
0	0	0	107,177
0	0	0	36,794
0	0	0	148,046
0	0	0	273,280
0	0	0	125,041
0	0	0	864,800
0	0	0	316,250
0	0	0	10,848
0	0	0	60,189

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Capital Outlay Fund	Special Education Fund
Special Education:			
Administration	\$0	\$0	\$92,947
Transportation	0	0	13,016
Community Services:			
Custody and care of children	136,477	0	0
Debt Service	0	473,313	0
Cocurricular activities:			
Male activities	77,215	0	0
Female activities	65,572	0	0
Transportation	59,600	0	0
Combined activities	62,414	0	0
Capital outlay	92,778	306,512	2,913
Total Expenditures	<u>6,639,375</u>	<u>1,073,086</u>	<u>1,683,055</u>
Excess of Revenues over(under)			
Expenditures	(340,802)	14,579	(94,745)
Other Financing Sources (Uses):			
Transfers-in	309,742	150,000	0
Transfers-out	<u>0</u>	<u>0</u>	<u>(722)</u>
Net Change in Fund Balances	(31,060)	164,579	(95,467)
FUND BALANCE (DEFICIT)			
JULY 1, 2008	<u>1,186,854</u>	<u>476,605</u>	<u>(33,530)</u>
FUND BALANCE,			
JUNE 30, 2009	<u>\$1,155,794</u>	<u>\$641,184</u>	<u>(\$128,997)</u>

The accompanying notes to financial statements are an
integral part of this statement.

Pension Fund	Impact Aid Fund	Bond Redemption Fund	Total Governmental Funds
\$0	\$0	\$0	\$92,947
0	0	0	13,016
0	0	0	136,477
0	0	284,995	758,308
0	0		77,215
0	0		65,572
0	0	0	59,600
0	0	0	62,414
0	0	0	402,203
73,507	0	284,995	9,754,018
30,298	556,866	13,921	180,117
0	0	0	459,742
(902)	(454,690)	(3,067)	(459,381)
29,396	102,176	10,854	180,478
103,083	527,401	374,388	2,634,801
\$132,479	\$629,577	\$385,242	\$2,815,279

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Net Changes in Fund Balances-Total Governmental Funds	\$180,478
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report property taxes as revenues when cash is received or within thirty days after year end, while the statement of activities includes the property taxes as revenue when earned for the year they were intended to finance.	(14,643)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(38,305)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	640,840
Governmental funds do not reflect the change in accrued interest payable or deferred charges, but the statement of activities reflects the changes in these through expenses.	2,302
Governmental funds do not reflect the change in internal service funds, but the statement of activities reflects these changes.	<u>(596)</u>
Change in Net Assets of Governmental Activities	<u><u>\$770,076</u></u>

The accompanying notes to financial statements are an integral part of this statement

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
BALANCE SHEET-PROPRIETARY FUND
JUNE 30, 2009

	ENTERPRISE FUND	
	Food Service Fund	Internal Service Fund
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$29,769	\$21,842
Inventory of donated food	4,053	0
Total Current Assets	33,822	21,842
Noncurrent Assets:		
Capital Assets:		
Machinery and equipment	102,473	0
Accumulated depreciation	(72,503)	0
Total Noncurrent Assets	29,970	0
TOTAL ASSETS	\$63,792	\$21,842
LIABILITIES:		
Current Liabilities:		
Deferred revenue	\$5,924	\$0
NET ASSETS:		
Invested in capital assets	29,970	0
Unrestricted net assets	27,898	21,842
Total Net Assets	57,868	21,842
TOTAL LIABILITIES AND NET ASSETS	\$63,792	\$21,842

The accompanying notes to financial statements are an
integral part of this statement.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS	
	Food Service Fund	Internal Service Fund
Operating Revenue:		
Sales:		
To pupils	\$185,853	\$0
To adults	9,230	0
Total Operating Revenue	195,083	0
Operating Expenses:		
Purchased services	363,761	0
Supplies	32	0
Cost of sales-donated food	19,623	0
Depreciation	3,148	0
Unemployment benefits	0	596
Total Operating Expenses	386,564	596
Operating Income (Loss)	(191,481)	(596)
Nonoperating Revenue (Expense):		
Local Sources:		
Interest earned	361	0
State Sources:		
Cash reimbursements	1,990	0
Federal Sources:		
Cash reimbursements	178,992	0
Donated food	19,452	0
Total Nonoperating Revenue (Expense)	200,795	0
Net income (loss) before transfers	9,314	(596)
Transfers-out	(361)	0
Change in Net Assets	8,953	(596)
Net Assets-beginning	48,915	22,438
NET ASSETS-ending	\$57,868	\$21,842

The accompanying notes to financial statements are an
integral part of this statement.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS	
	Food Service Fund	Internal Service Fund
Cash Flows from Operating Activities:		
Receipts from customers	\$195,178	\$0
Payments to suppliers	(\$363,793)	
Unemployment benefits	0	(596)
Net Cash Provided (Used) by Operating Activities	(168,615)	(596)
Cash Flows from Noncapital Financing Activities:		
Operating subsidies	180,982	0
Transfers-out	(361)	0
Cash Flows from Capital Financing Activities:		
Purchase of equipment	(19,154)	
Cash Flows from Investing Activities:		
Interest received	361	0
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(\$6,787)</u>	<u>(\$596)</u>
Cash and Cash Equivalents at Beginning of Year	\$36,556	\$22,438
Cash and Cash Equivalents at End of Year	<u>27,769</u>	<u>21,842</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(\$6,787)</u>	<u>(\$596)</u>

The accompanying notes to financial statements are an
integral part of this statement.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS	
	Food Service Funds	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	(\$191,481)	(\$596)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation expense	3,148	0
Commodities used	19,623	0
Deferred revenue received	95	0
Net Cash Provided (Used) by Operating Activities	<u>(\$168,615)</u>	<u>(\$596)</u>
Noncash Investing, Capital and Financing Activities:		
Value of commodities received	<u>\$19,452</u>	<u>\$0</u>

The accompanying notes to financial statements
are an integral part of this statement.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2009

	Private-purpose Trust Funds	Agency Funds
ASSETS:		
Cash and cash equivalents	\$97,148	\$63,006
Total Assets	\$97,148	\$63,006
LIABILITIES:		
Amounts held for others	\$0	\$63,006
NET ASSETS:		
Held in trust for scholarships	97,148	0
Total Liabilities and Net Assets	\$97,148	\$63,006

The accompanying notes to financial statements are an
integral part of this statement.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
FOR YEAR ENDED JUNE 30, 2009

	<u>Private-purpose Trust Funds</u>
ADDITIONS:	
Contributions and donations	\$5,270
Interest earned	<u>1,817</u>
Total Additions	<u>7,087</u>
DEDUCTIONS: For scholarships	<u>(7,677)</u>
Change in Net Assets	(590)
Net Assets-beginning	<u>97,738</u>
NET ASSETS-ending	<u><u>\$97,148</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Chamberlain School District No. 7-1, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation, Basis of Accounting:

Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. These statements distinguish between the *governmental and business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying the School District's share of retirement plan contributions and for paying early retirement benefits to qualifying employees. The fund is financed by property taxes. This is a major fund.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact Aid Fund - A fund established by SDCL 13-6-30 and SDCL 13-16-31 to account for funds received through federal P.L. 103-382, Title VIII. Expenditures cannot be made directly from this fund but transfers out to other school district funds shall be made at the direction of the school board. This is a major fund.

DEBT SERVICE FUND TYPES - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principle, interest and related costs.

The Bond Redemption Fund - A fund established by SDCL 13-16-13 to account for the proceeds of a special property tax restricted to use for the payment of principle and interest on general obligation bonded debt. This is a major fund.

Proprietary Funds:

Enterprise Funds - enterprise funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments, on a cost-reimbursement basis. The unemployment fund is the only internal service fund maintained by the School. Internal service funds are never considered to be major funds.

The proprietary funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds.

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The school district maintains only the following private-purpose trust funds:

Scholarship trusts (seven separate trusts established by donors to provide for college scholarships to graduating students).

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations.

The School District maintains agency funds to hold assets as an agent in a trustee capacity for various class clubs and so on.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe 'how' transactions are recorded within the various financial statements. Basis of accounting refers to 'when' revenues

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the 'current financial resources' measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the 'economic resources' measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Chamberlain School District No. 7-1, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2009 are various reimbursement type grants due from the State of South Dakota and miscellaneous revenues including the sale of a student built house.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reductions occur in the Internal Service Funds, so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in government-wide or fund financial statements.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2009 balance of capital assets for governmental activities are valued at historical cost. The total June 30, 2009 balance of capital assets for business-type activities are all valued at original cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ ALL	-	-
Improvements	\$10,000	Straight-line	15-25 yrs
Buildings	\$50,000	Straight-line	50 yrs
Machinery and Equipment			
General	\$ 300	Straight-line	5-20 yrs
Food Service	\$ 300	Straight-line	5-20 yrs

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements:

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consists primarily of general obligation bonds and capital outlay certificates payable.

In the fund financial statements, the debt proceeds are reported as revenues (other financing sources) and payment of principle and interest reported as expenditures when the become due. The accounting for proprietary fund long-term is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

All interest expense on long-term debt is reported as a separate line on the "Statement of Activities."

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the proprietary funds have access to their cash resources on demand. Accordingly, all reported proprietary fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted: or "invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the School District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - in General, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

No investments were held as of June 30, 2009 nor during the year then ended. "Investments" presented in the financial statement were certificates of deposit having maturities in excess of 90 days when acquired. These had a cost and fair value of \$518,195 as of June 30, 2009.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

Custodial Credit Risk - Deposits -The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the General Fund, except for the Capital Outlay Fund, which retains its own interest income.

3. RECEIVABLES AND PAYABLES:

Neither receivables nor payables are not aggregated in these financial statements. The District expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been established.

4. INVENTORY:

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

4. INVENTORY (continued):

Inventory of supplies held for consumption recorded in both the Government-wide financial statements and in the funds statements as assets when purchased and are charged to the various functions of government as they are consumed.

5. PROPERTY TAXES:

Property taxes are levied on or before each October 1, attached as an enforceable lien on property and become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The county bills and collects the School District's taxes and remits them to the School District.

School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by an amount not collected during the current fiscal period or within the "availability period".

6. CHANGES IN CAPITAL ASSETS:

A summary of the changes in capital assets for the year ended June 30, 2009 is as follows:

	Balance <u>7/01/08</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/09</u>
Government Activities:				
Capital Assets				
not being				
depreciated				
Land	217,000	-	-	217,000

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. CHANGES IN CAPITAL ASSETS (continued):

	Balance 7/01/08	Increase	Decrease	Balance 06/30/09
Capital Assets being depreciated				
Buildings	\$11,211,539	\$ -	\$ -	\$11,211,539
Improvements	141,713	-	-	141,713
Machinery and Equipment	3,428,609	402,203	-	3,830,812
Total	<u>14,781,861</u>	<u>402,203</u>	<u>-</u>	<u>15,184,064</u>
Less accumulated Depreciation:				
Buildings	2,851,821	203,900	-	3,055,721
Improvements	9,480	4,740	-	14,220
Machinery and Equipment	1,389,060	231,868	-	1,620,928
Total	<u>4,250,361</u>	<u>440,508</u>	<u>-</u>	<u>4,690,869</u>
Total capital assets being depreciated, net:	<u>10,531,500</u>	<u>(38,305)</u>	<u>-</u>	<u>10,493,195</u>
Governmental activity capital assets, net:	<u>\$10,748,500</u>	<u>\$ (38,305)</u>	<u>\$ -</u>	<u>\$10,710,195</u>
Business-type activities				
Machinery and Equipment	83,319	19,154	-	102,473
Accumulated Depreciation	(69,355)	(3,148)	-	(72,503)
Capital assets, Net	<u>\$ 13,964</u>	<u>\$ 16,006</u>	<u>\$ -</u>	<u>\$ 29,970</u>

Depreciation expense was changed to functions as follows:

Governmental activities:	
Instruction	\$ 264,305
Support Services	162,988
Cocurricular Activities	13,215
	<u>\$ 440,508</u>

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. CHANGES IN CAPITAL ASSETS (continued):

Business-type activities:

Food service \$ 3,148

7. LONG-TERM LIABILITIES:

A summary of changes in long-term liabilities follows:

	<u>Capital Outlay Certificates</u>	<u>General Obligation Bonds</u>	<u>Total</u>
Liabilities payable			
June 30, 2008	\$1,970,242	\$1,340,000	\$3,310,242
Deletions	<u>(395,840)</u>	<u>(245,000)</u>	<u>(640,840)</u>
Debt payable			
June 30, 2009	<u>\$1,574,402</u>	<u>\$1,095,000</u>	<u>\$2,669,402</u>
Due within			
One year	<u>\$ 412,074</u>	<u>\$ 265,000</u>	<u>\$ 677,074</u>

Debt payable at June 30, 2009 comprised of the following:

Capital Outlay Certificates:

Series 2007, matures 2014, interest rate of 4.56%. Payments are made from the

Capital Outlay Fund \$ 671,225

Series 2003, matures 2012, interest rates of 4% to 5.25%, depending on length to maturity of individual certificates. Payments are made from the Capital Outlay Fund

\$ 903,177

Total Capital Outlay Certificates

\$1,574,402

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

7. LONG-TERM LIABILITIES (continued):

General Obligation Bonds:

Series 2005 G.O. Refunding Bonds,
interest rates of 2.5% to 3.4%;
depending on length to maturity
of individual bonds; matures 2012.

Repaid from tax levies of the
Debt Service Fund. (The refunded debt
was called and paid in 2006)

1,095,000

Total Debt

\$2,669,402

The annual requirements to amortize all debt outstanding as of
June 30, 2009 are as follows:

Annual Requirements to Amortize Long-term Debt
June 30, 2009

Year Ended June 30,	Capital Outlay Certificates		General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 412,074	\$ 61,239	\$ 265,000	\$ 31,513	\$ 677,074	\$ 92,752
2011	428,979	44,334	270,000	23,085	698,979	67,419
2012	446,582	26,731	275,000	14,228	721,582	40,959
2013	140,151	11,497	285,000	4,845	425,151	16,342
2014	<u>146,616</u>	<u>5,034</u>	<u>-</u>	<u>-</u>	<u>146,616</u>	<u>5,034</u>
Total	<u>\$1,574,402</u>	<u>\$148,835</u>	<u>\$1,095,000</u>	<u>\$ 73,671</u>	<u>\$2,669,402</u>	<u>\$ 222,506</u>

8. RESTRICTED NET ASSETS:

The following table shows the net assets restricted for other
purposes as shown on the Statement of Net Assets:

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

8. RESTRICTED NET ASSETS (continued)

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	\$ 646,321
Pension Fund	Law	132,969
Debt Service Fund	Debt covenants	387,088
Food Service	Federal regulation	<u>27,898</u>
Total Restricted Net Assets:		<u>\$1,194,276</u>

9. RETIREMENT PLAN

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also required the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$272,095, \$255,653 and 242,001 respectively, equal to the required contributions each year.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

10. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2009, the school district managed its risks as follows:

Employee Health Insurance:

The school district purchases health insurance for its employees from a commercial carrier. Claims resulting from this liability have not exceeded coverage during the past three years.

Liability Insurance:

The school district purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Claims resulting from this liability have not exceeded coverage during the past three years.

Workmen's Compensation Insurance:

The school district purchases liability insurance for workmen's compensation from a commercial carrier. Claims resulting from this liability have not exceeded coverage during the past three years.

Unemployment Benefits:

The School has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The School has equity in the Unemployment Fund in the amount of \$21,842 for the payment of future unemployment benefits.

During the year ended June 30, 2009, one claim was paid for unemployment benefits. At June 30, 2009, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. INTERFUND TRANSFERS

The following transfers were made to the General Fund during fiscal year 2009:

For interest income:	<u>Amount</u>
Special Education Fund	\$ 722
Pension Fund	902
Impact Aid Fund	4,690
Bond Redemption Fund	3,067
Lunch Fund	361

For Supplementary (Grant) Purposes:

Impact Aid	<u>300,000</u>
Total	<u>\$309,742</u>

The Impact Fund also transferred \$150,000 to the Capital Outlay Fund to supplement its operations.

12. DEFICIT FUND BALANCES:

As of June 30, 2009, the Special Education Fund had a deficit fund balance of \$128,997. The School District plans to eliminate this deficit by applying for increased State Aid.

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED
JUNE 30, 2009

	Federal CFDA Number	Pass- through Grantor's Number	Expenditures
U. S. DEPARTMENT OF AGRICULTURE:			
Pass-through the S. D. Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program			
(Note 2)	10.553	70010	30,045
National School Lunch Program			
(Note 2)	10.555	70010	168,570
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>198,615</u>
U. S. DEPARTMENT OF INTERIOR			
Pass-through the S.D. Department of Education:			
Distribution of Receipts to State and Local			
Governments (Note 2)	15.227	N/A	<u>162</u>
GENERAL SERVICES ADMINISTRATION:			
Pass-through the S.D. Federal Property Agency:			
Donation of Federal Surplus Personal			
Property (Note 5)	39.003	N/A	<u>1,282</u>
U. S. DEPARTMENT OF EDUCATION:			
Direct Federal Funding:			
Impact Aid-(Title VIII) (Note 3 & 4)	84.041	N/A	498,300
Pass-through the S. D. Department of Education:			
Title I Programs - Local Education			
Agencies (Note 3)	84.010	T1-09-27	1,002,455
Vocational Education -Basic Grants to States	84.048	N/A	21,429
Special Education			
Grants for Infants and Families with Disabilities	84.181		3,587
Safe and Drug Free Schools and Communities			
State Grants	84.186	N/A	19,976
Title IV - 21st Century	84.287	N/A	100,000
Education Technology State Grants	84.318	N/A	17,189
Rural Education	84.358	N/A	22,338
Improving Teacher Quality State Grants	84.367	N/A	196,661
ARRA - State Fiscal Stabilization Funds	84.394	N/A	181,113

CHAMBERLAIN SCHOOL DISTRICT NO. 7-1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED
JUNE 30, 2009

Special Education Cluster (Note 2)			
Special Education Grants to States	84.027	N/A	215,333
Special Education - Preschool Grants	84.173	N/A	5,723
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>2,284,104</u>
GRAND TOTAL			<u><u>\$2,484,163</u></u>

NOTE 1: The accompanying Schedule of Federal Awards includes the federal grant activity of the School and is presented on the modified accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

Note 3: This represents a major federal financial assistance program.

Note 4: This amount represents cash received in the Special Education Fund of \$43,610 plus 454,690 transferred from the Impact Aid Fund to the General Fund and Capital Outlay Fund. The Impact Aid received a total of \$552,176, but \$454,690 was "expended" via transfers.

Note 5: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the School District.

CHAMBERLAIN SCHOOL DISTRICT No. 7-1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. A significant deficiency and material weakness was disclosed by the audit. See Section 2, Finding Number 2009-01.
- c. No instances of noncompliance were noted by the audit.
- d. A significant deficiency and material weakness in internal control over major programs was noted. See Section 3, Finding Number 2009-02 below.
- e. An unqualified report was issued on compliance for major programs.
- f. Audit findings required to be reported under Section .510 (a) of OMB Circular A-133 are listed below in Section 3, Finding Number 2009-01 and 2009-02.
- g. Programs treated as major programs for this audit were:

<u>Name</u>	<u>CFDA Number</u>
Title I Programs-	
Local Education Agencies	84.010
Impact Aid	84.041

- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The entity was not qualified as a low risk auditee as described in Section .530 of OMB Circular A-133.

CHAMBERLAIN SCHOOL DISTRICT No. 7-1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

2. FINANCIAL STATEMENT FINDINGS

FINDING NUMBER 2009-01:

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA:

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

The School District agrees with this comment. The Superintendent and School Board are responsible for the corrective action plan of this comment. This comment is a result of the size of the Chamberlain School District Number 7-1 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Chamberlain School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Chamberlain School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

CHAMBERLAIN SCHOOL DISTRICT No. 7-1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2009-02

A material weakness in internal control over federal programs exists due to a lack of segregation of duties. See Finding Number 2008-01 above for further explanation.

Major Federal Programs Affected:

Title I Programs-	
Local Educational Agencies	CFDA No. 84.010
Impact Aid	CFDA No. 84.041

Compliance requirements affected:

Allowable costs/cost principles

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

SCHOOL DISTRICT RESPONSE:

The School District agrees with this comment. The Superintendent and School Board are responsible for the corrective action plan of this comment. This comment is a result of the size of the Chamberlain School District Number 7-1 which precludes staffing at a level sufficient to provide an ideal environment for internal controls. Chamberlain School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenue, expenditures and payroll. Chamberlain School District is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

CHAMBERLAIN SCHOOL DISTRICT No. 7-1
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2009

Prior Audit Findings relative to Financial Statement Audit:

FINDING NO. 2007-01 and 2008-01:

A material weakness was reported due to a lack of segregation of duties. This condition was first reported by this auditor in 1988.

Status as of June 30, 2009:

The condition noted in prior audits is still applicable.

Prior Audit Findings relative to Federal Awards:

FINDING NO. 2007-02 and 2008-02

A material weakness was reported due to a lack of segregation of duties.

Status as of June 30, 2009:

The condition noted in prior audits is still applicable.